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An unending variety of topics

Wednesday, August 27, 2008

Flying money: a brief overview

Abstract money today primarily involves accounts and other computerized bits, but traditionally came in the form of paper. The Chinese, who invented paper money called it "flying money." Abstract money is worthwhile because the dominant kind of money over human evolution, unforgeably costly commodities, can be quite costly to store and transport compared to abstract documents. For money the biggest costs of storage and transportation are typically not mundane real estate or carriage costs, but active security threats such as robbery and embezzlement.

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About Me

Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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Abstract documents, unlike unforgeably costly commodities, require trust in a human institution to enforce the abstract claims of value made in the document. This enforcement, if effective, lets the recipient of the document be confident that it can be converted into something of value, traditionally an unforgeably costly commodity that backs the document. If the recipient of the document wants to trade the document to third parties -- negotiate it -- this enforcement may also provide confidence to these third parties that they too can receive something of value in exchange for relinquishing the abstract claim.

alternative text

Enforcement typically came in the form of legal and reputation systems. For example, the Medieval European law merchant enforced contracts and monetary promises in the merchants' own courts, with remedies such as bankruptcy and expulsion from merchant guilds. Bosses (principals) enforced orders against their employees (agents), and there were also often family relationships within firms that increased trust within the firm.

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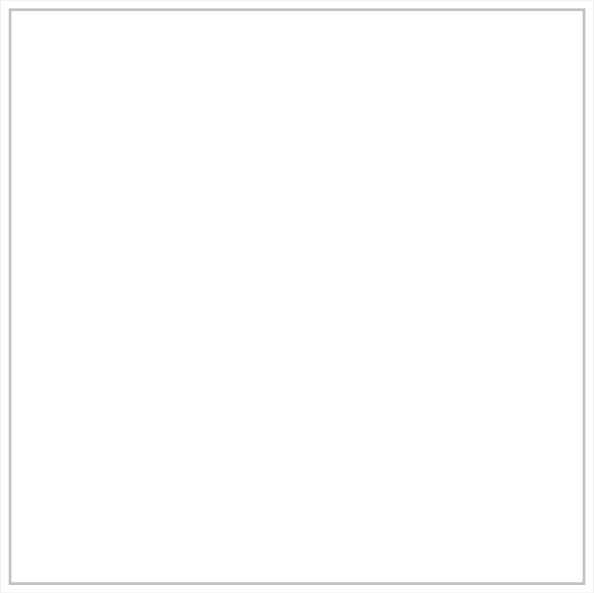
In most modern legal systems, and in many traditional legal and merchant reputation systems, credit money has come in two basic forms -- drafts, or orders from a boss to his employee (in legal jargon, from a principal to his agent) to transfer goods to a certain person, and notes, or promises to transfer goods to a certain person. A draft was enforced privately, by the ways bosses normally discipline employees; a promise to pay was enforced by an enforcement agency, often a government, by reputation among merchants, or both. Often the document reifying money that we will examine took on both of these roles.

The draft, in particular the warehouse receipt, is probably oldest form of credit document. Warehouse receipts are issued to document the storage of personal property in a warehouse. Typically, a warehouse receipt is an acknowledgement that the warehouseman is holding the owner's goods. The receipt acts as a title to the goods; transferring the receipt is as good as transferring the goods. The

receipt acts as an instruction to the warehouseman's agent to release the goods to whoever presents the receipt. Thus, it is more properly categorized as a draft (an order to an agent) than a note (a promise to pay), although in some ways and in some legal systems it has been treated as both.



Another kind of draft is a bill of lading. This is a receipt for transported goods, and an order for the transport agent at the other end to release the goods to a person authorized by the shipper to receive them.

Description of illustrations(in order): Sumerican clay envelope c. 3,500 B.C., probably a warehouse receipt or a billing of lading; plate for Chinese paper money, c. 1279 A.D., with recent print from that plate; private bank note of the Bank of Scotland, 1716; Early Mormon private bank (Kirkland Safety Society, Ohio, U.S.A.) note signed by Joseph Smith, 1837; private bank note from a private road and bridge operating company (Delaware Bridge Company, New Jersey, U.S.A.) 1838; warehouse receipt for silver with micro-barcodes 2002.

Posted by Nick Szabo at 4:33 PM

3 comments:

Anonymous said...

The receipt acts as a title to the goods; transferring the receipt is as good as transferring the goods. The receipt acts as an instruction to the warehouseman's agent to release the goods to whoever presents the receipt.

The warehouse receipt appears analogous to an object-capability to a sealed box containing the goods.

5:21 PM

runiteking1 said...

Thanks for this post! Exactly the information for my history project!

5:34 PM

Anonymous said...

this was very helpful, thanks!

10:05 PM

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